STATE OF CALIFORNIA
ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of: Informational Proceedings and Preparation of the 2003 Integrated Energy Policy Report	Docket 02-IEP-01 2003 Environmental Performance Report Staff Draft

COMMENTS OF

THE INDEPENDENT ENERGY PRODUCERS ASSOCIATION

ON THE

2003 ENVIRONMENTAL PERFORMANCE REPORT – STAFF DRAFT

The Independent Energy Producers Association (IEP) appreciates this opportunity to present written comments on the Commission's staff draft report "2003 Environmental Performance Report" (Report) dated June 2003.

IEP is a nonprofit trade association representing the interests of California electric generators and certified independent power marketers. IEP's membership consists of the owners and operators of projects using cogeneration, solar-thermal, wind, biomass and geothermal technologies, developers of new gas-fired generation, as well as the purchasers of fossil facilities voluntarily divested by the California investor-owned public

utilities. IEP's membership collectively own and operate more than 20,000 MW of installed generating capacity participating in California's competitive markets.

These comments address certain aspects of the Staff Draft Report for which IEP has questions, concerns, and\or observations. Accordingly, the comments are provided sequentially, by chapter, consistent with the presentation of the staff draft report.

I. Comments to Executive Summary:

1. The Report should address providing incentives to the existing generating infrastructure to add expanded and \or new emission control measures to gain future improvements in air emissions performance. The Report concludes that "Further improvements in air emissions performance of the generation sector must come from technological advances in emissions control or by decreasing reliance on combustion-fired generation through reduced demand or increased use of non-fired electricity sources." (Executive Summary, p.ii) The Report further concludes that "California needs continued air emission reductions from the generation sector. The state's air quality infrastructure can, and should, provide practical and innovative rules to address both existing and new generation sources, resulting in appropriate emission reduction contributions from the generation sector." (Executive Summary, p. iii)

As staff accurately points out, California's existing generating base is already significantly better in terms of emission levels as compared to that of surrounding states. Further, "Command & Control" (C&C) type regulation and\or decreasing utilization of electric generation may not be cost effective, nor is it likely to improve overall system reliability in the short-term. The cost of additional controls designed to achiever incremental improvements may not out-weight the marginal benefit of the emissions reduction. Furthermore, if generation facilities shut down because the cost of emissions compliance out-weight the "value" of the facility in the energy marketplace, the total cost of compliance may increase dramatically if the electric grid faces "stress" due to the

closure of a facility. Such stress could come in the form of a loss of ancillary services, a loss of energy, and\or a loss of capacity without a ready replacement.

IEP recommends that the Report explore alternative, innovative means to incent generation to improve its environmental performance, particularly older generation units "needed" for system reliability. For example, in its long range planning of environmental performance, the State could employ a funding program directed to the existing generation infrastructure and distributed through some type of competitive solicitation. As an alternative to simply imposing higher, stricter emission standards on a relatively clean fleet of electric generators, the state could utilize a Public Goods Charge (PGC) mechanism, funded by ratepayers, to raise capital for emission reductions that would be allocated in a competitive environment in which the more cost-effective emission reduction investments would be supported by consumers.

2. Power plant development causes no rater impact individually, and substantially less collectively, than other anthropogenic activities in the State. The Report states that "Because California's most sensitive species tend to occupy small habitat ranges, energy development projects have the potential to cause impacts when built nearby." Although IEP would agree that many of California's sensitive species occupy small habitat ranges and energy development projects "have the potential" to cause impacts when built nearby, so too does any human activity.

The Report suggests the biological and habitat loss "foot print" of the generation sector is quite positive compared to other types of human development. As noted in this section of the Report "The 18 operational natural gas-fired power plants licensed by the CEC after 1996 caused the loss of 225 acres of habitat and produced generally minimal terrestrial biological resource impacts." This is equivalent to one moderately sized housing subdivision or perhaps a large commercial mall. Staff's suggestion that power plant development has an unusually high incidence to cause these type impacts is especially egregious when staff's conclusion in the boy of the report states that "However, the largest concern for most federally listed species is the cumulative habitat loss due to urban development. " (p. 56)

IEP recommends this record, built under the guidance of the Commission and the Commission's Siting Committee, be hailed and trumpeted as a policy/siting success, rather than hidden or presented as if this record is not exemplary.

3. A description of California's electric generation sector ought to be presented in comparison to other contexts. As noted in the previous section, the record of California's electric generation sector appears exemplary when compared to other regions of the country. In part, what drives the environmental impacts from this sector is the demand for energy and capacity from a growing population base, rather than an inherent technological deficiency in generation technology per se.

IEP recommends that the record strive to show a regional comparison of California's electric generation sector compared to other sectors of the country on a per capita basis. All generation has some negative environmental impacts. The real issue for California's consumers and policy makers is the state of California's existing infrastructure compared to others states and regions; the choices, impacts and alternatives confronted as we move forward to ensure a stable and reliable energy system; and, the trade-offs to achieve these ends.

4. Dry cooling for power generation is commercially viable in some, but not all instances. As this Report will set the stage for the Integrated Energy Policy Report, leading to policy decisions affecting the generating industry of the State, Commission staff needs to be vigilant in the tone as well as substance of what it states in this Report. IEP concurs that alternative cooling options, such as dry cooling, are commercially viable, in certain instances, but as a general matter, often remain exceedingly expensive for most new installations.

IEP recommends that the Report address the following: (a) financial impact to most projects in considering alternative cooling options, and (b) potential cost mitigations strategies, for example use of a non-bypassable rate adder, paid to new or retrofitted installations using these cooling technologies as a means to ensure timely application of "dry cooling" if sought by the Commission.

II. Comments to Chapter 2 (Overview of the West Coast Electric System):

5. A wider discussion on the diversity of fuel sources for new capacity additions is warranted. The Report appropriately discusses the diversity of generating resources permitted and installed in eh State since 1996, concluding that most new capacity is fueled by natural gas.

As a Report on Environmental Performance, IEP recommends that this discussion be expanded, giving greater detail on diversification of the West Coast Electric System (e.g., percentage of projects brought on-line since 1996 by number, MW's and technology type). IEP notes that, per the draft Report, the last time CA had as little fuel diversification in its new capacity additions was the 1950's.

6. The state's current level of installed capacity is inadequate. The Report concludes that California's efforts to coordinate with other state and federal agencies significantly helped in adding new installed generating capacity in the State by the end of 2002. (Chapter 2, page 20) Staff itself states that it was a nexus of events, particularly an average temperature summer in 2001 plus conservation efforts (not mentioning a statewide recession that helped avert the last energy crises.

IEP recommends that the Report address more explicitly the need for new generation capacity in the future in terms of scope, scale, and timing of resource additions. While this information is contained in other Commission reports that presumably will be chapters to the Integrated Energy Plan, a summary of that work

should be included in this section. The State's success next time may not be as glowing, and IEP suggests a more cognitive, proactive effort be made today to install new, environmentally sound capacity (including both natural gas and renewables).

III. Comments to Chapter 3 – 5:

7. The "environmental footprint" of California's installed capacity should be commended, rather than criticized. As the Report states, power plant PM10 and Nox emissions are only 0.47% and 3.0%, respectively, of the respective total PM10 and Nox emissions for the State. If ozone and PM10 are the two primary criteria pollutants of most concern to CA, IEP questions how the Report can conclude that "California needs continued air emission reductions from the generation sector." California already sets the standard for states within the WECC. Requiring new generators to meet ever-increasing standards for emission reductions will raise costs to California consumers with unknown impacts on the location of future resource development.

IEP recommends that the Report's summary statements be evaluated in light of the historical progress and record made by this Commission, through the Siting Committee, in terms of developing new, cleaner fleet of generation assets to meet California's growing demand. Based on the evidence, the record of improving the overall performance of the generation sector is strong. Furthermore, while additional improvements can always be identified, the existing record suggests that the cost to achieve the next increment of improvement may rise disproportionately to what has occurred historically. At some point, the incremental costs may outweigh the incremental benefits, and the Commission should inform policymakers of the reality.

8. The CEC should be the coordinating agency for the State's energy policy. The Report states that CARB will shortly be distributing draft rules "targeting combustion turbines", and suggests such rules may result in "shutdowns and curtailments." However,

Commission staff notes earlier in its Report how "the full range of generation facilities, including peaking power plants," are vitally important to meeting peak demand.

IEP suggests that the pending dichotomy be resolved through a coordinated effort headed by the Commission, therby potentially averting a situation where environmental performance standards raised by one regulatory agency (i.e. the CARB) impact the planning objectives of another agency (i.e. the Commission) and\or the reliability obligations of other entities (e.g. CAISO).

9. Staff's conclusions regarding digester gas, landfill gas and solid fuel biomass need to be restated. Staff concludes that small hydropower had the highest probability to impact federally listed species when compared to other renewable generation technologies. However, it follows this statement with the suggestions that impacts from biomass at digester or landfill generating facilities follow shortly behind. (Report, at p. 72). This sentence suggests digesters and landfills are permitted specifically for the production of energy, not as an acceptable means to process or dispose of their respective waste streams. Similarly, the Report alludes to potential impacts from road building in forested areas to access fuel for solid fuel biomass facilities, incorrectly suggesting that roads are built to access the biomass fuel, rather than commercial species of timber for lumber production or to perform silvi-cultural activities.

IEP recommends that the Report revisit the assumptions embedded in these statements. Electrical generation from technologies such as these is a by-product, in many respects, of other activities which have beneficial environmental affects. For example, digesters and landfills serve to reduce methane gas emissions, which have a range of negative environmental impacts. Similarly, biomass facilities provide a variety of well-known environmental impacts (e.g. landfill diversion, forest fire minimization) the value of which appears to be omitted or under-stated in the report.

Conclusion

IEP appreciates the opportunity to provide these comments. The 2003 Environmental Performance Report is a large compendium, and our comments here are not meant to be exhaustive. Rather, they are meant to be illustrative of a range of changes to the Report which will aid policy-makers and consumers in their understanding of the complex, generation sector of California's economy. We look forward to working with the Commission on the development of the Integrated Energy Policy Report.

Respectfully submitted,

Steven Kelly
Policy Director
Independent Energy Producers Association

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